

Idaho Economic Forecast

DIRK KEMPTHORNE, Governor

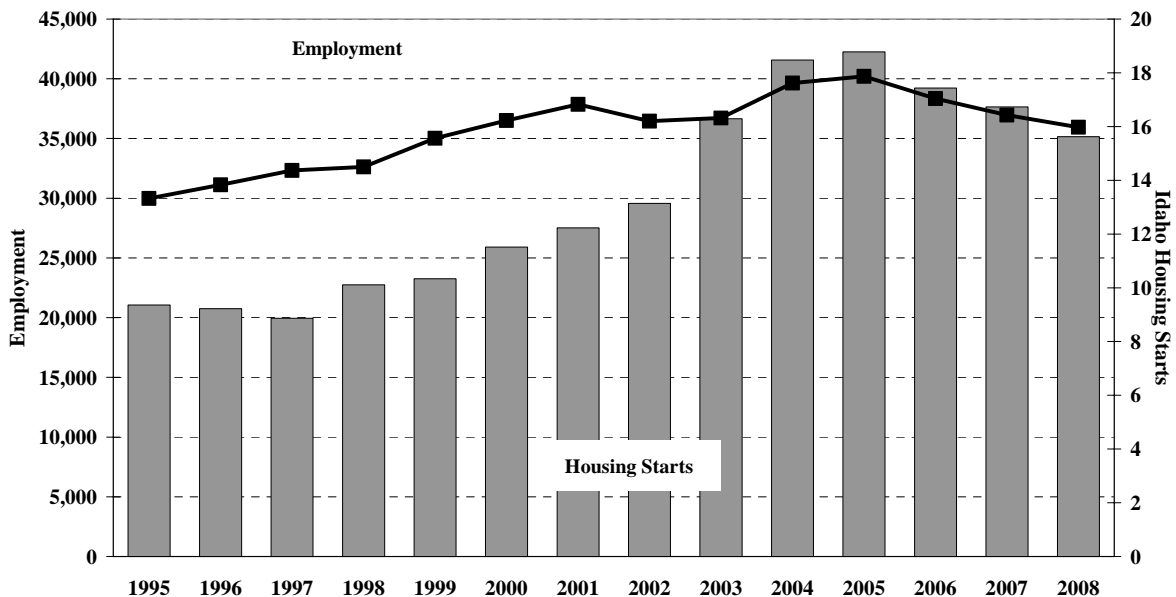
Division of Financial Management

Vol. XXVII, No. 2
April 2005

ISSN 8756-1840

- Forecast 2004-2008
- Productivity and Inflation
- Alternative Forecasts

Idaho Construction Employment & Housing Starts



**IDAHO
ECONOMIC
FORECAST
2004 - 2008**

State of Idaho
DIRK KEMPTHORNE
Governor

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05-04/385/010200-180-4001

PREFACE

Idaho's economy continues to grow and evolve as it enters the 21st Century. The 1980s was a decade of stop-and-start economic performance. However, it also ushered in one of the longest expansions in the state's history. Since 1987, nonfarm employment has expanded in every year and has consistently placed Idaho among the top ten fastest growing states in the nation. The 1990s saw a flood of new residents move into the state, causing the population to expand by an astounding 29% from 1990 to 2000. Over this period Idaho personal income nearly doubled. Much of the current expansion results from ongoing structural changes in Idaho's economy.

One of the biggest changes is the rise of the state's high-technology sector. Virtually nonexistent in the 1970s, this sector achieved critical mass in the 1990s to become the state's largest manufacturing employer. The growth of industry giants, such as Micron Technology and Hewlett-Packard, as well as the emergence and expansion of smaller companies, pushed payrolls above even the most optimistic forecasts made in the 1980s. The state's trade sector has also been going through a transformation. The last decade witnessed an influx of national "big box" merchandisers. During this same time, Idaho merchants successfully reached beyond the state's borders. Several regional shopping centers were established that serve locals, as well as attract shoppers from other states and Canada. Visitors fueled the surge in tourism that also benefited trade. Like its national counterpart, the service sector accounts for most of the nonfarm jobs in Idaho. Tourism has also been a boon to the service industry. While traditional factors, such as increasing discretionary income, continue to fuel the demand for services, other influences have emerged. For example, the use of temporary employees in manufacturing has bolstered business services employment. Idaho's outstanding work force has been a major factor in attracting call centers, back office operations, and credit companies.

While many changes are taking place today, traditional resource industries still play a major role in Idaho's economy. Indeed, the state's mining, agriculture, and timber sectors all experienced lulls in the late 1990s. While displaying more resilience to downturns than in the past, these industries are not totally immune from business-cycle effects. This continuing dependence on natural resources will bring a host of challenges to Idaho.

Other factors that are external to the state's economy will also present challenges to decision makers. Public policy decisions made in Washington, D.C. affect resource industry and federal installations such as the Idaho National Laboratory and the Mountain Home Air Force Base. Finding balanced and acceptable solutions to endangered and threatened species issues and timber supply issues are of major economic significance.

In order to deal effectively with these challenges, public and private decisions need to be made with a thorough understanding of the structure of the state's economy. It is to this end that the *Idaho Economic Forecast* is directed.

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INTRODUCTION

The national forecast presented in this publication is the March 2005 Global Insight baseline forecast of the U.S. economy. The previous *Idaho Economic Forecast* is based on the November 2004 Global Insight baseline national forecast.

The recent history and current forecasts of Idaho construction employment and housing starts are featured on the cover of this edition of the *Idaho Economic Forecast*. Idaho housing starts are expected to be 18,778 units this year, 17,433 units next year, 16,728 units in 2007, and 15,623 units in 2008. In the January 2005 *Forecast* Idaho housing starts were projected at 17,634 units in 2005, 16,252 in 2006, 15,296 in 2007, and 13,968 in 2008. Idaho's construction payroll will rise to over 40,000 jobs in 2005 then fall gradually to about 36,000 jobs in 2008.

FEATURE

Several recent developments have raised concerns about a productivity slowdown in the U.S. that could slow economic growth and boost inflation. Though these developments give us ample reason to think seriously about what the future may hold for productivity growth, they should be viewed in perspective. In this *Forecast's* feature article, Federal Reserve Bank of San Francisco's President and CEO, Janet L. Yellen, offers her insights regarding this situation. This article is based on a speech Dr. Yellen delivered at the Economic Summit at the Stanford Institute for Economic earlier this year. The full text of this speech can be found at the Federal Reserve of San Francisco's web site.

THE FORECAST

Alternative assumptions concerning future movements of key economic variables can lead to major variations in national and/or regional outlooks. Global Insight examines the effects of different economic scenarios, including the potential impacts of international recessions, higher inflation, and future Federal Reserve Board decisions. Alternative Idaho economic forecasts were developed under different policy and growth scenarios at the national level. These forecasts are included in this report.

Historical and forecast data for Idaho and the U.S. are presented in the tables in the middle section of this report. Detail is provided for every year from 1991 to 2008 and for every quarter from 2002 through 2007. The solution of the Idaho Economic Model (IEM) for this forecast begins with the fourth quarter of 2004.

Descriptions of the Global Insight U.S. Macroeconomic Model and the IEM are provided in the Appendix. Equations of the IEM and variable definitions are listed in the last pages of this publication.

CHANGES

The historical Idaho nonfarm employment data appearing in this forecast was provided by the Idaho Department of Commerce and Labor and seasonally adjusted by the Idaho Division of Financial Management (DFM). This data consists of final employment estimates through the third quarter of 2004 and preliminary data for the fourth quarter of 2004. These new historical data show Idaho nonfarm employment in the first quarter of 2004 was about 1,400 lower than had been previously reported. This is the result of using a more accurate data source than was used in the January 2005 *Idaho Economic Forecast*. These same data show the Idaho nonfarm employment forecasts made in January 2005 for the third quarter under estimated actual employment by about 700. Interestingly, the preliminary data show the previous prediction for the fourth quarter of 2004 was virtually spot on.

The tables in this forecast also include the U.S. Department of Commerce's Bureau of Economic Analysis (BEA) estimates of Idaho quarterly personal income through the third quarter of 2004. The BEA released its latest Idaho personal income estimates which run through the fourth quarter of 2004 in late March 2005. These new data will be incorporated into the July 2005 *Idaho Economic Forecast*.

As part of DFM's commitment to incorporate current data into the Idaho Economic Model (IEM), all of the stochastic equations in the model were estimated this spring. This was more than a mechanical reestimation. The model's entire structure was reviewed and changes made where appropriate. The results of these efforts can be found in the latter pages of the Appendix to this report.

The *Idaho Economic Forecast* is available on the Internet at http://dfm.idaho.gov/Publications/Econ_Publications.html. Readers with any questions should contact Derek Santos at (208) 334-2906 or at dsantos@dfm.idaho.gov.

SUBSCRIPTIONS

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